



DELAINÉ EASTIN
State Superintendent of Public Instruction

CALIFORNIA
DEPARTMENT
OF
EDUCATION

721 Capitol Mall

P. O. Box 944272

Sacramento, CA

94244-2720

MANAGEMENT BULLETIN 02-06

September 18, 2002

To: County and District Superintendents
Charter School Administrators

Attention: County and District Chief Business Officers

From: Susan Lange, Deputy Superintendent
Finance, Technology and Administration Branch

Subject: **2002 BUDGET ACT AND RELATED LEGISLATION**

On September 5, 2002, Governor Gray Davis signed the 2002 Budget Act, AB 425 (Chapter 379, Statutes of 2002). Action on the omnibus budget “trailer bill,” AB 2781, and a number of other bills related to the budget, is pending. In the interest of providing information on the budget as quickly as possible, this management bulletin focuses on major highlights. We will issue a more comprehensive review of the budget at a later date. Copies of this bulletin, as well as future budget-related documents, will be available at <http://www.cde.ca.gov/fiscal/> on the California Department of Education’s web site. Copies of budget documents themselves are available through the Department of Finance’s web site (<http://www.dof.ca.gov/>).

2002-03 BUDGET OVERVIEW

The state revenue picture for 2002-03 has worsened since January. In the May revision of the budget, the Department of Finance (DOF) cited “a precipitous decline in revenues from the personal income tax on capital gains and stock options” and a national recession. In January, the state DOF projected a \$12.5 billion gap between projected revenues and projected expenditures over the two-year period ending in 2002-03. In May, the DOF projected a \$23.6 billion gap.

To bridge this gap, the May revision proposed a mix of program reductions (\$7.6 billion), tax increases, and “the maximum fiscally responsible level of fund shifts, loans, accelerations, transfers, and deferrals.” In June and July, the Legislature passed a portion of the budget package involving reductions, funding shifts, and deferrals affecting various 2001-02 appropriations for Proposition 98 purposes. (For details on these actions, please see the earlier Management Bulletins available on our web site.) These actions had the effect of freeing up non-Proposition 98 funds because Proposition 98 funding in 2001-02 was significantly higher than the guarantee amount.

As enacted, the budget for 2002-03 includes program reductions of \$7.5 billion and a mix of other changes that are substantially the same as proposed in the May revision, with greater amounts of loans, transfers, and deferrals, and lesser amounts of tax increases. The budget decreases year-to-year spending by 0.2% and contains a reserve of \$1 billion, or 1.3% of revenues.

PROPOSITION 98 AND K-12 EDUCATION OVERVIEW

Under Proposition 98, the revenues assumed in the budget result in required funding levels of \$37.7 billion (state and local funds) in 2001-02 and \$46.5 billion in 2002-03 for ongoing program purposes in K-12 schools, other educational agencies, and community colleges. These figures are based on “Test 3” under Proposition 98 in 2001-02 and “Test 2” in 2002-03. As part of the Proposition 98 calculation, the Constitution allows the state to provide a lower funding level (Test 3) than otherwise required in years when personal income growth exceeds General Fund revenue growth, although the full Test 2 funding level must eventually be restored in later years as revenues improve. The funding level provided in the budget package for 2002-03 is at the minimum level required by Proposition 98. The funding level for 2001-02 exceeded the minimum requirement by \$5.5 billion.

Focusing on Proposition 98 funding for K-12 education, the budget assumes spending of \$38.3 billion (state and local funds) in 2001-02 and provides \$41.6 billion in 2002-03 for K-12 education under Proposition 98. The funding level for 2001-02 is \$2.1 billion below the budget for that year enacted in July 2001. This figure consists of \$454 million in reductions that were approved by the Legislature in February and \$1.7 billion in reductions, funding shifts, and deferrals approved in June.

The funding level for 2002-03 is \$350 million higher than the amount proposed in January and \$1.1 billion higher than the 2001-02 budgeted level. On a per-ADA (average daily attendance) basis, K-12 Proposition 98 funding is \$6,610 in 2001-02 (5.6% below the 2001-02 Budget Act level of \$7,002) and \$7,067 in 2002-03 (0.9% above the 2001-02 Budget Act level).

In addition to Proposition 98 funding, the budget package includes one-time funds for K-12 education in 2002-03. These funds are reverted from previous Proposition 98 appropriations so they must be spent for Proposition 98 purposes, but they do not count in the Proposition 98 totals. The 2001-02 funding level from one-time funds was \$1.1 billion, an increase of \$106 million from the amount appropriated in the 2001 Budget Act. This increase is the net effect of \$397 million in reductions that were approved by the Legislature in February and an increase of \$503 million to fund adult education that was approved in June. The 2002-03 funding level from one-time funds is \$73 million, significantly less than the amount that has been available in recent years from one-time funds.

Including one-time funds as well as Proposition 98 funds, and backing out the effect of funding deferrals, the budget provides funding of \$6,965 per pupil in 2001-02 (3% below the 2001-02 Budget Act level of \$7,178) and \$7,037 in 2002-03 (2% below the 2001-02 Budget Act level).

The budget also includes reductions in non-Proposition 98 General Fund education programs.

Finally, the budget includes \$737 million in new federal funds related to the No Child Left Behind Act.

Local educational agencies should note that the budget situation is likely to be difficult again next year. This could result in current-year reductions and/or deferrals similar to those imposed in 2001-02. The Legislative Analyst's Office has projected that 2003-04 expenditures would exceed revenues by at least \$7 billion under the Governor's May proposal. Due to anticipated budget shortfalls, the Department of Finance has asked state agencies, including CDE, to prepare lists of proposed reductions totaling 20% of 2002-03 appropriations to be implemented in 2003-04. Although the budget reductions implemented to date have not reduced Proposition 98 spending below the minimum level, it is possible that the situation may force the Governor and the Legislature to reconsider schools' exemption from cuts.

2001-02 CHANGES IN DETAIL

Significant changes affecting 2001-02 spending were made in three pieces of legislation: SBX3 1 (Chapter 1, Statutes of 2002, Third Extraordinary Session) enacted in February, AB 3008 (Chapter 99, Statutes of 2002) enacted in June, and AB 3011 (Chapter 101, Statutes of 2002) enacted in July. The changes for 2001-02 are listed in detail in Table 2 in the Appendix and fall primarily into the following categories:

- \$1 billion in deferrals. AB 3008 eliminated 2001-02 appropriations for five programs. AB 3011 replaced all or a portion of each of these appropriations with 2002-03 funds.
- \$400.6 million in net shifts from ongoing to one-time funding. In addition to other changes, AB 3008 replaced \$503 million in ongoing adult education funding with one-time funds.
- \$677.1 million in funding reductions involving ongoing funds.
- \$294 million in funding reductions involving one-time funds.

2002-03 CHANGES IN DETAIL

The major 2002-03 changes are shown in Table 3 in the Appendix. The changes include:

- Increased expenditures of \$1 billion due to deferral of expenditures from 2001-02 to 2002-03.
- Reduced expenditures of \$681 million due to deferral of expenditures from 2002-03 to 2003-04.
- Reduced expenditures of \$120.8 million due to funding shifts.
- Program reductions totaling \$430.7 million.
- Full funding of ADA growth and a 2% cost-of-living adjustment (COLA) for apportionments and most categorical programs.
- Net reductions in spending for instructional materials totaling \$173.5 million.

The 2002-03 Proposition 98 spending level cited in this letter includes \$132.2 million "set aside" by the Governor for allocation in the future.

Funding Deferrals

The June and July actions deferred \$1 billion in expenditures from 2001-02 to 2002-03. The budget package deferred an additional \$681 million in spending for four programs from 2002-03 to 2003-04. The budget package appropriates the funds needed in 2003-04 for the 2002-03 costs of these programs. The programs were chosen so as to minimize cash flow disruptions for school districts. For two of the programs (transportation and school improvement), spending will be reduced by deferring the last three payments in this fiscal year to 2003-04, thus allowing cash to flow to school districts as usual for most of the year. For a third program (targeted instructional improvement grants), spending will be reduced by deferring funds for one final payment to 2003-04. The final payment for this program normally would not be distributed until 2003-04 anyway. For the fourth program (supplemental grants), the entire amount needed for the program is deferred until 2003-04. Funding for this program normally is not distributed until the latter part of the fiscal year.

Funding Reductions

The budget imposes funding reductions in 2002-03. Some of the reductions are technical and reflect lower expenditures than originally budgeted. The most significant of the program reductions include \$76 million from operational funding for the digital high school program, \$50 million from peer assistance and review, \$46 million from CalWORKS adult education, and \$37 million from Healthy Start.

The budget eliminates state funding for some programs. These include: school development plans and resource consortia (\$21.6 million), secondary schools reading (\$8 million), demonstration programs in intensive instruction (\$6.1 million), student academic partnerships (\$2 million), and high school coach training (\$1 million).

Full Funding of Growth and COLA

The budget fully funds ADA growth, now estimated at 1.37% in 2002-03, and a 2% cost-of-living adjustment (COLA), which is above the statutory level of 1.66%.

Revenue Limits

For school district revenue limits, the estimated 2002-03 COLA amounts (2%) per unit of ADA are \$89 for elementary school districts, \$108 for high school districts, and \$93 for unified districts.

The budget does not contain any funding in 2002-03 for either revenue limit equalization or for any partial “buy-out” of the PERS reduction offset to revenue limits. However, the budget package includes legislation requiring funding for both programs in 2003-04.

For the PERS reduction buy-out, 2001-02 budget reduction legislation restores in 2003-04 the \$35 million for this purpose that was funded in 2001-02 and makes that funding permanent, adjusted annually for growth and COLA.

For equalization, the 2001-02 budget reduction legislation contained parallel provisions restoring in 2003-04 the \$40 million provided in 2001-02. However, these provisions were superceded by provisions in AB 2781, which is pending signature by the Governor. AB 2781 appropriates \$406 million for equalization in 2003-04. It also changes the funding formula so that half of the funding will be allocated based on an equalization formula using current, “post-SB 727,” base revenue limits per ADA; and the other half of the funding will be allocated based on a “pre-SB 727” equalization formula that excludes the adjustment to base revenue limits per ADA that is based on districts’ 1996-97 excused absence rates.

Instructional Materials

The budget restructures instructional materials funding. The program changes are implemented in AB 1781 (pending signature by the Governor). Overall, the funding level will be \$432.9 million (\$419 million in ongoing funds plus \$13.9 million in one-time funds), a reduction of \$173.5 million since 2001-02. Specifically, the budget:

- Reduces school library funding from \$158.5 million to \$32.7 million (\$23.2 million in ongoing funds plus \$9.5 million in one-time funds).
- Eliminates funding for classroom libraries, the previous instructional materials program, and standards-based instructional materials, totaling \$447.8 million in 2001-02.
- Establishes a new instructional materials block grant at a \$400.1 million level in 2003-03. This consists of \$250 million in ongoing funds, \$145.8 million in ongoing funds designated to sunset in 2002-03, and \$4.4 million in one-time funds.

Child Development

The Governor withdrew the child care restructuring proposals he included in the January budget. As enacted, the budget provides funding of \$2.3 billion (state and federal funds) for child care and development programs, including \$24.3 million for a 2% COLA. Of this amount, \$308 million is for state preschool programs. There is no expansion funding for preschool programs this year.

The budget provides \$998 million for alternative payment program services provided to CalWORKS recipients. The budget restructures the mix of funding sources, with a net decrease in funding of \$65.7 million for Stage 2 child care and a net increase of \$103.5 million for Stage 3 child care. The budget provides an additional \$108.4 million in the CalWORKS reserve account if needed for Stage 1 and/or Stage 2.

Finally, the budget redirects \$42 million from the surplus balance in the Child Care Facilities Revolving Fund for non-child development purposes.

Accountability and Professional Development

Immediate intervention/underperforming schools. The budget provides an increase of \$29.6 million. This increase is the net effect of reductions in funding for first-cohort schools and increases in funding for implementation at third-cohort schools. Of this amount, \$6 million is set aside to support schools working with school assistance and intervention teams or schools subject to state or federal sanctions.

High priority schools grants. This new program was originally funded at \$197 million in 2001-02. During the 2001-02 budget reductions, this amount was reduced to \$18 million, which was allocated for planning costs in schools in the first decile of the 2001 Academic Performance Index (API). The 2002-03 funding level is \$217 million, which consists of the originally anticipated level of \$197 million plus \$20 million that will be used for costs in schools in the first and second deciles of the 2001 API, as specified in budget language.

High achieving/improving schools (Governor's Performance Awards). This program was originally funded at \$157 million in 2001-02. This amount was eliminated as part of the 2001-02 budget reductions. However, AB 3011 provided \$67.3 million in 2002-03 to fund roughly half of the awards that were planned for distribution in 2001-02. The Budget Act provides another \$77 million to fund the remaining cost of the awards for 2001-02. There are no funds currently budgeted for awards for 2002-03. According to budget documents, however, the Governor intends to propose funding for 2002-03 awards in the 2003-04 budget.

Certificated staff performance incentive. This program was originally funded at \$100 million in 2001-02. This amount was eliminated as part of the 2001-02 budget reductions. There are no funds currently budgeted for awards for 2002-03. According to budget documents, however, the Governor intends to propose funding for 2002-03 awards in the 2003-04 budget.

Mathematics and reading professional development. The budget provides \$63.5 million (half one-time funds and half ongoing funds) for this purpose. The program was funded at a level of \$31.7 million (one-time funds) in 2001-02.

Principal training. The budget provides \$7.5 million (\$2.5 million one-time funds and \$5 million ongoing funds) for this purpose. The program was funded at a level of \$15 million (one-time funds) in 2001-02.

Professional development institutes (University of California). The budget does not provide any funds for stipends for UC professional development institutes. Funding for this purpose was \$54 million (non-Proposition 98) in 2001-02.

Mandates

The budget contains \$125.5 million for mandate reimbursements. This figure reflects a reduction of \$41.5 million due to elimination of some mandates, suspension of some mandates, and deferral of payment for others.

The budget package eliminates funding for three mandates that would be repealed by AB 3005, which is pending signature by the Governor. The three mandates are absentee ballots—schools, school discipline rules, and school district choice transfer/appeals.

The budget package suspends the school bus safety and school crimes reporting mandates for one year. Suspension would be authorized in AB 2781, which is also pending signature.

The budget defers payment for six mandates to future years. The affected mandates are: pupil suspensions (\$1 million), intra-district attendance (\$5.4 million), inter-district attendance (\$1.8 million), inter-district transfer—parent’s employment (\$1.1 million), mandate reimbursement process (\$12.1 million), and habitual truants (\$5.5 million).

The budget does not include any funds to reimburse school districts for retroactive costs for the school bus safety II mandate. The 2001-02 budget had originally included \$66.7 million in one-time funds for this mandate, with allocation subject to a report by the State Auditor and Department of Finance approval. However, these funds were eliminated as part of the 2001-02 budget reductions. Language in AB 2781 directs the Commission on State Mandates to revise the parameters and guidelines of this mandate to specify that costs associated with implementation of transportation plans are not reimbursable. AB 2781 also requires application of the amended parameters and guidelines retroactively as well as prospectively.

Federal Changes

The budget contains \$737 million in new federal funds for local assistance related to the new No Child Left Behind Act. The major federal appropriations for local assistance purposes are as follows:

- Title I, Part A, basic grants—\$1.5 billion. This is a \$301.4 million increase over the January budget and includes \$29.1 million for school improvement and intervention programs contingent on passage of legislation after federal regulations are issued.
- Title I, Part B, reading first—\$131.6 million. This is a new program.
- Title I, Part C, migrant education—\$134.4 million. This is a \$17.8 million increase over the January budget.
- Title I, Part F, comprehensive school reform demonstration programs—\$39.7 million. This is a \$6.8 million increase over the January budget.
- Title II, improving teacher quality—\$321.4 million. This replaces the Eisenhower program (\$45.8 million) and class size reduction (\$174.7 million), with a net increase of \$100.9 million over the January budget.
- Title III, language instruction for limited English proficient and immigrant students—\$108.8 million. This is an increase of \$67.6 million over the January budget.
- Title IV, Part A, safe and drug-free schools—\$52.2 million. This is an \$11.7 million increase over the January budget and includes an allocation for a new program to support community service for suspended and expelled students (\$6.3 million).
- Title IV, Part B, 21st century community learning centers—\$40.9 million. This is a new program.

- Title V, innovative programs—\$39.1 million. This is a \$1.6 million decrease compared to the January budget.
- Title VI, assessment—\$28.8 million. This is a new program.
- Enhancing education through technology—\$83 million. This is a \$28.1 million increase over the January budget.

Questions regarding this bulletin should be directed to the Fiscal and Administrative Services Division at (916) 445-4672.

NOTICE:

The guidance in this bulletin is not binding on local education agencies or other entities. Except for the statutes, regulations, and court decisions that are referenced herein, this bulletin is exemplary, and compliance with it is not mandatory. (See Education Code Section 33308.5.)

APPENDIX

Table 1
Budget Act and Related Legislation

AB 425	Chapter 379	2002 Budget Act
2001-02 changes		
SBX3 1	Chapter 1	2001-02 reductions, round 1
AB 3008	Chapter 99	2001-02 reductions, round 2
AB 3011	Chapter 101	2002-03 changes related to 2001-02 reductions
AB 2785	Chapter 444	Technical cleanup to AB 3008
2002-03 changes		
AB 593	pending	Unallocated reductions in state operations
AB 1100	pending	Charter schools and basic aid
AB 1781	pending	Instructional materials
AB 2781	pending	Omnibus education trailer bill
AB 2998	pending	Charter schools
AB 3005	pending	Mandates

Table 2
2001-02 Budget Changes (In Thousands)

	One-time Funds	Ongoing Funds
Defer from 2001-02 to 2002-03		
Targeted instructional improvement grants		-\$713,360
High achieving/improving schools		-144,300
Instructional time and staff development reform		-76,000
Testing—STAR		-60,643
Beginning teacher support and assessment		-39,000
Subtotal		-1,046,003
Funding shifts		
PERS offset	-\$35,000	35,000
Categorical programs per ADA allocation	-67,831	67,831
Adult education	503,433	-503,433
Subtotal	400,602	-400,602
Reductions		
High priority schools grant program		-179,000
Energy assistance	-175,000	
Teaching as a priority block grant		-118,650
Certificated staff performance incentive		-100,000
School bus safety mandate	-66,728	
Peer assistance and review		-50,000
Mathematics and reading professional development	-48,272	
CalSAFE implementation delay		-44,233
Healthy start		-38,000
Ninth grade class size reduction		-35,000
Digital high school		-26,000
Before- and after-school programs expansion		-22,200
Child development		-20,014
Beginning teacher support and assessment		-20,000
High Achieving/Improving Schools		-12,700
Charter school facilities grants		-5,000
National Board for Professional Teaching Standards		-5,000
Testing—STAR contract		-5,000
Advanced Placement challenge grants		-4,000
High-risk youth education and public safety		-4,000
High tech high schools	-4,000	
High school coach training		-1,000
Subtotal	-294,000	-677,097
Baseline, technical, and miscellaneous changes		-2,377
Total	\$106,602	-\$2,126,079

Table 3
2002-03 Budget Changes
(In Thousands)

	One-time Funds	Ongoing Funds
Defer from 2001-02 to 2002-03		
Targeted instructional improvement grants		\$713,360
High achieving/improving schools		144,300
Instructional time and staff development reform		76,000
Testing—STAR		60,643
Beginning teacher support and assessment		14,000
High-tech high schools	\$4,000	0
Subtotal	4,000	1,008,303
Defer from 2002-03 to 2003-04		
Supplemental grants		-241,739
Targeted instructional improvement grants		-184,399
Transportation		-139,579
School improvement program		-115,283
Subtotal		-681,000
Funding shifts		-120,812
Reductions		
Digital high school		-76,000
Peer assistance and review		-50,000
CalWORKS adult education		-46,000
Mandates--suspension		-41,522
Healthy start		-37,000
CalSAFE implementation delay		-35,000
Ninth grade class size reduction		-35,000
School development plans and resource consortia		-21,622
Beginning teacher support and assessment		-20,000
Testing--contract savings		-14,786
Education technology staff development (delay to 2003-04)		-9,650
Advanced Placement teacher training		-8,250
Secondary schools reading		-8,000
Demonstration programs in intensive instruction		-6,097
College preparation partnership program		-5,000
National Board for Professional Teaching Standards		-5,000
Governor's reading awards (delay to 2003-04)		-4,750
Paraprofessional training		-4,000
Student academic partnerships		-2,000
High school coach training		-1,000
Subtotal		-430,677
Growth		731,123
COLA		789,408
Instructional materials	13,870	-187,336

Child development		74,013
Accountability and professional development		
Immediate intervention/underperforming schools		29,585
High priority schools grant program		20,000
High achieving/improving schools (delay to 2003-04)		-157,000
Certificated staff performance incentive (delay to 2003-04)		-100,000
Mathematics and reading professional development	31,728	31,728
Principal training	2,500	5,000
Subtotal	34,228	-170,687
Set-aside		132,221
Baseline, technical, and miscellaneous	20,598	-60,621
Total	\$72,696	\$1,083,935